Shaping the "Open" World by Leveraging Partners

An Internet Strategy

Brewster Kahle
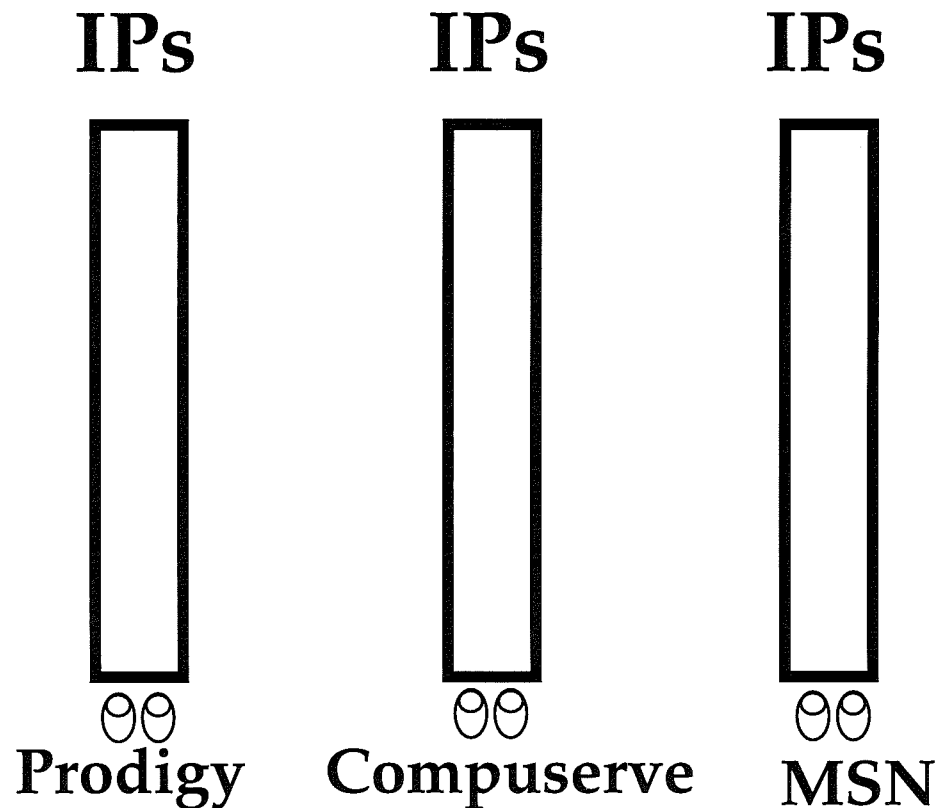Oct 1, 1995
DRAFT presentation

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Internet Opportunity
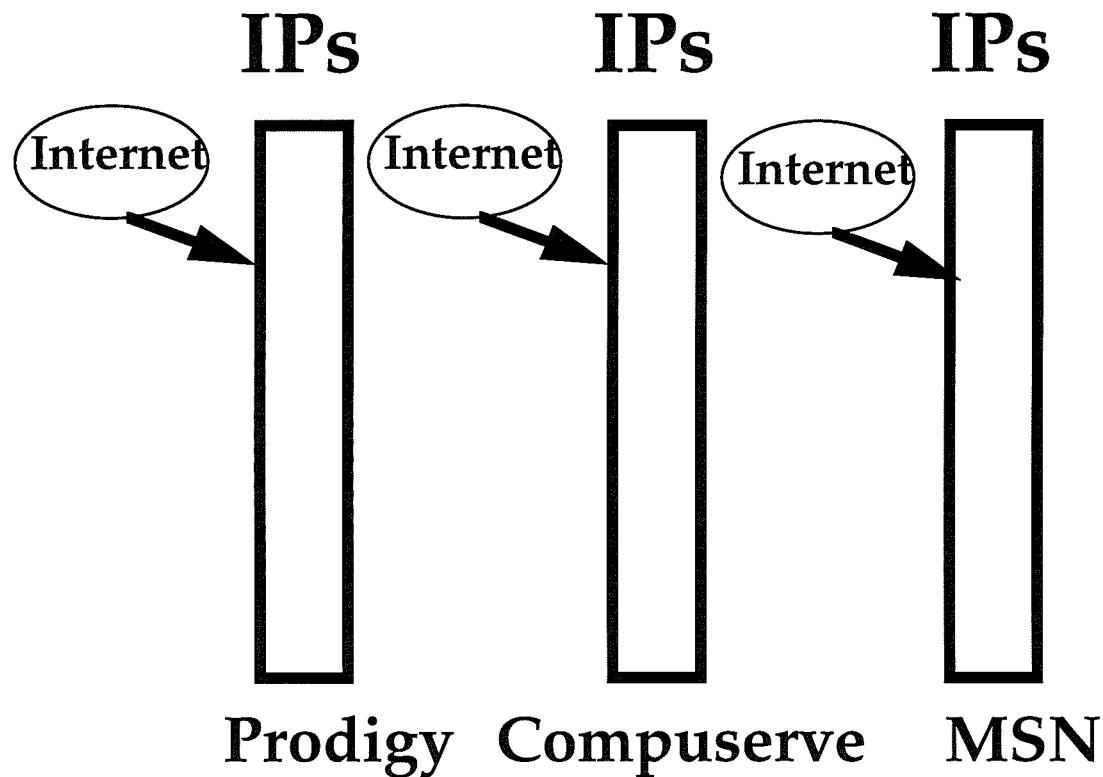
◊ We have a business model and they don't

◊ We can define a business model for the emerging Internet

◊ If we don't participate, Microsoft or Kleiner Perkins might dictate

◊ The opportunity exists now, but not forever

Current Online Services

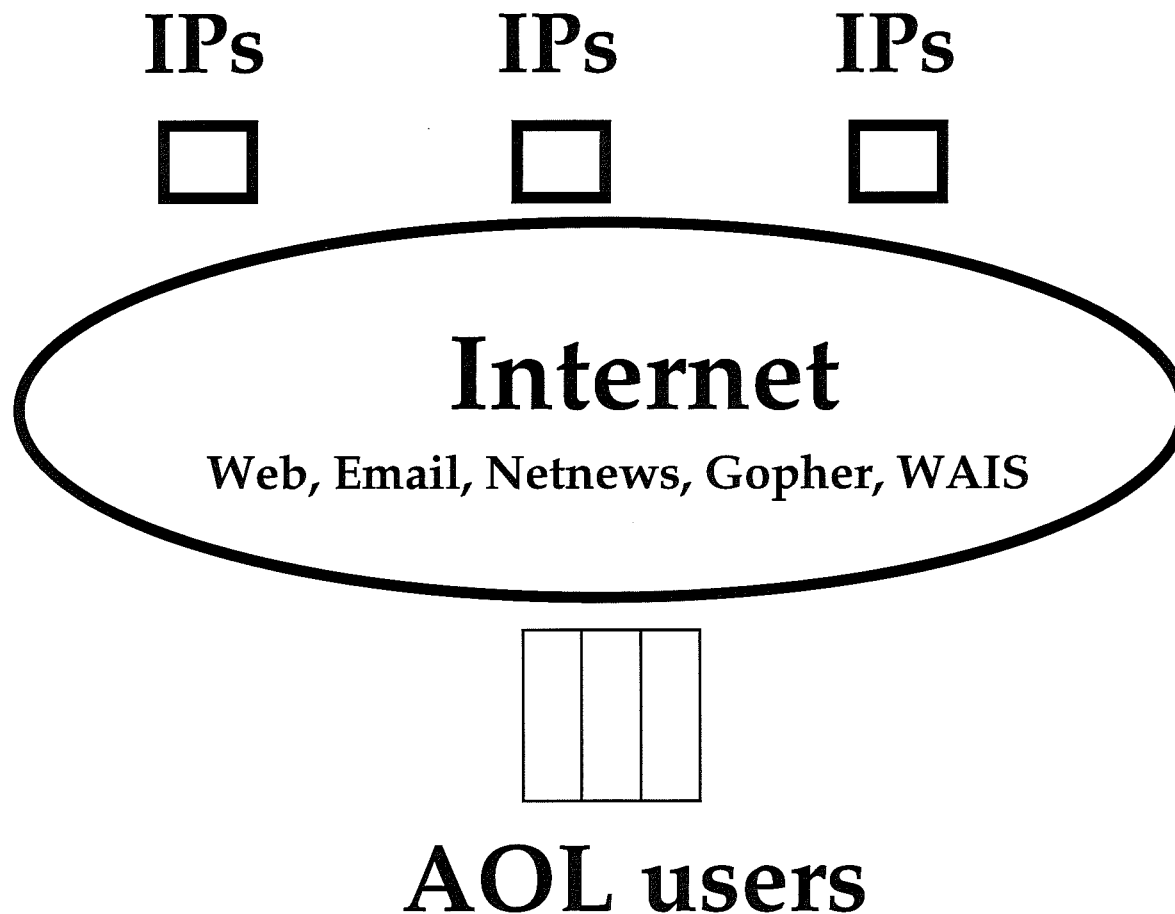IPs   IPs   IPs

Prodigy   Compuserve   MSN

◊ **Proprietary and Exclusive**

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Old Strategy: Window on the Net

IPs   IPs   IPs

Internet   Internet   Internet

Prodigy Compuserve   MSN

AOL Integrates with the Net

IPs   IPs   IPs

☐   ☐   ☐

Internet
Web, Email, Netnews, Gopher, WAIS

AOL users

◊ Leverages other's work for our purpose

AOL as Driver of the Net

IPs   IPs   IPs

☐   ☐   ☐   Strategic
                                  Acquisitions:

Publishing   NaviSoft
Billing   WAIS Inc
Directory   WebCrawler
Security   GNN
Browser/Client   Terisa
Transport   Booklink/Ubique
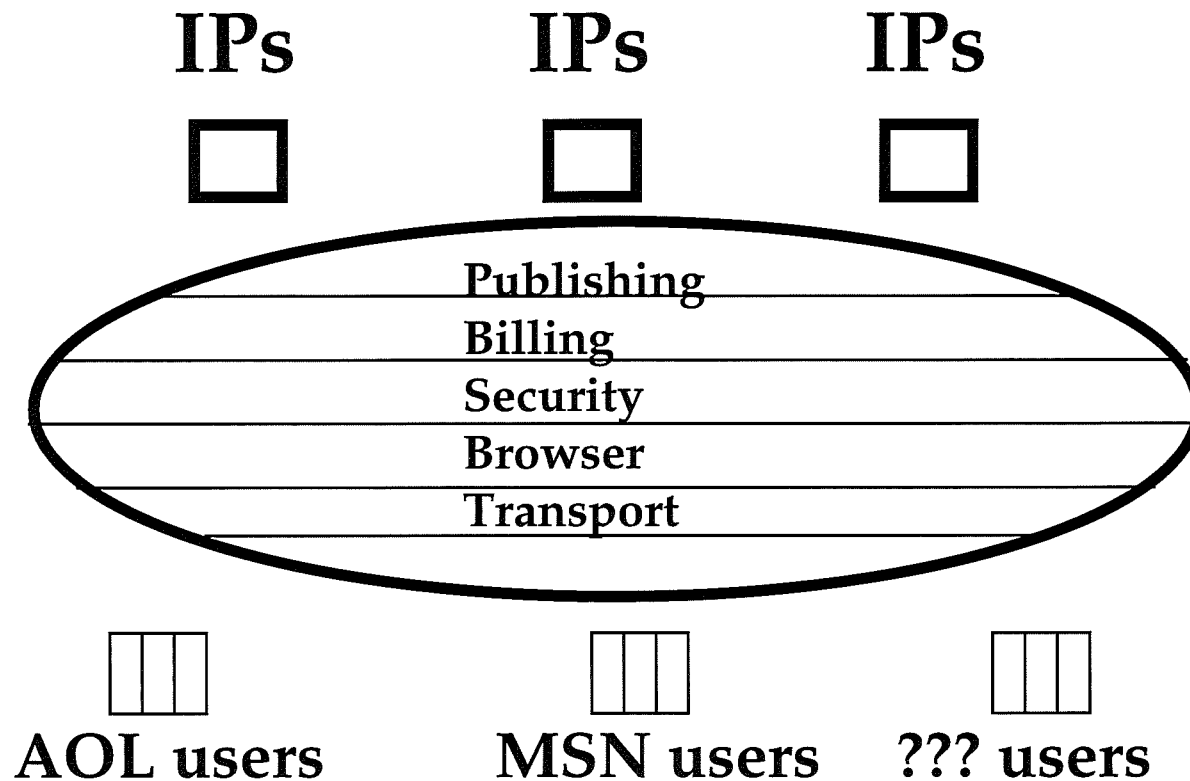   ANS

AOL users
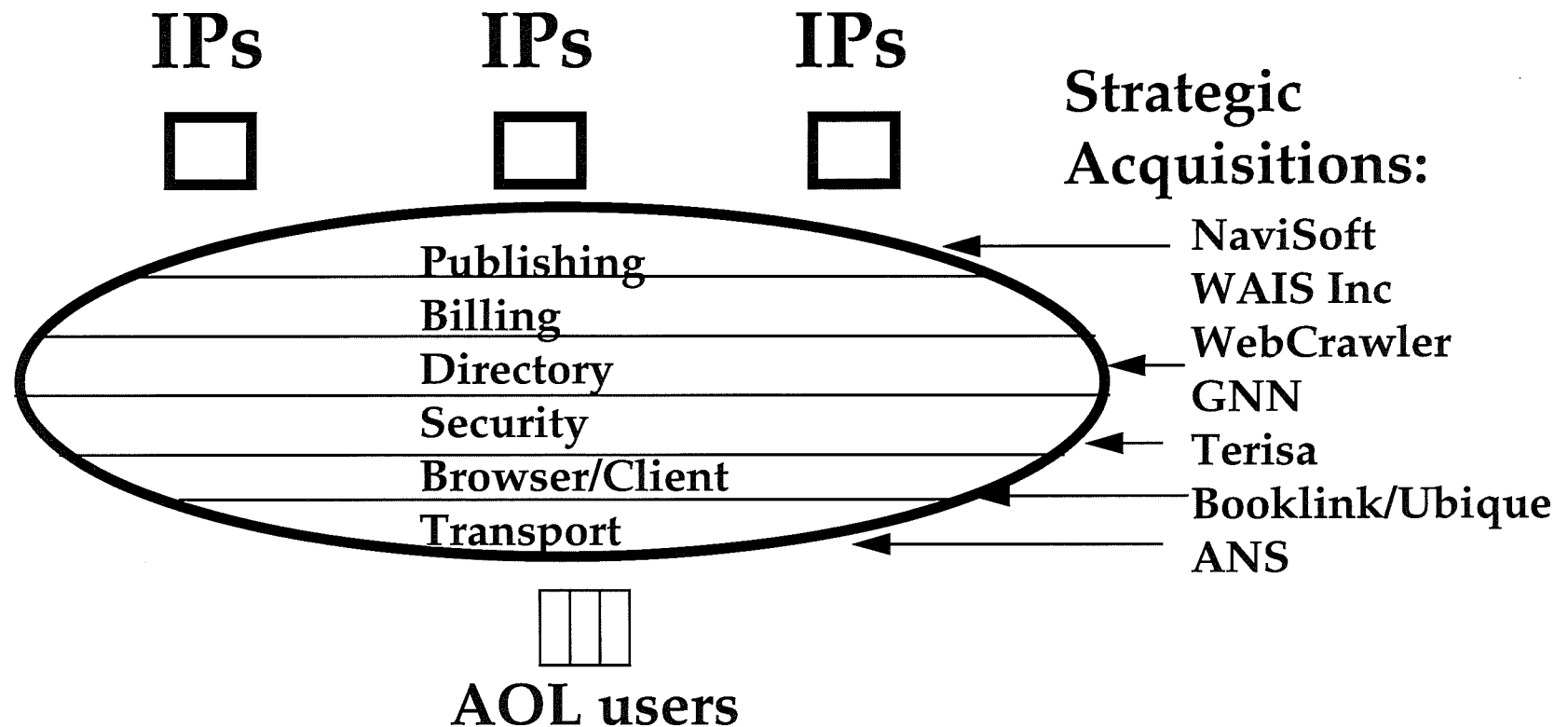
◊ Open Systems can be Shaped

◊ Open = Horizonal ; Proprietary = Vertical

Forces Others to the Open Platform

IPs   IPs   IPs

□   □   □

Publishing
Billing
Security
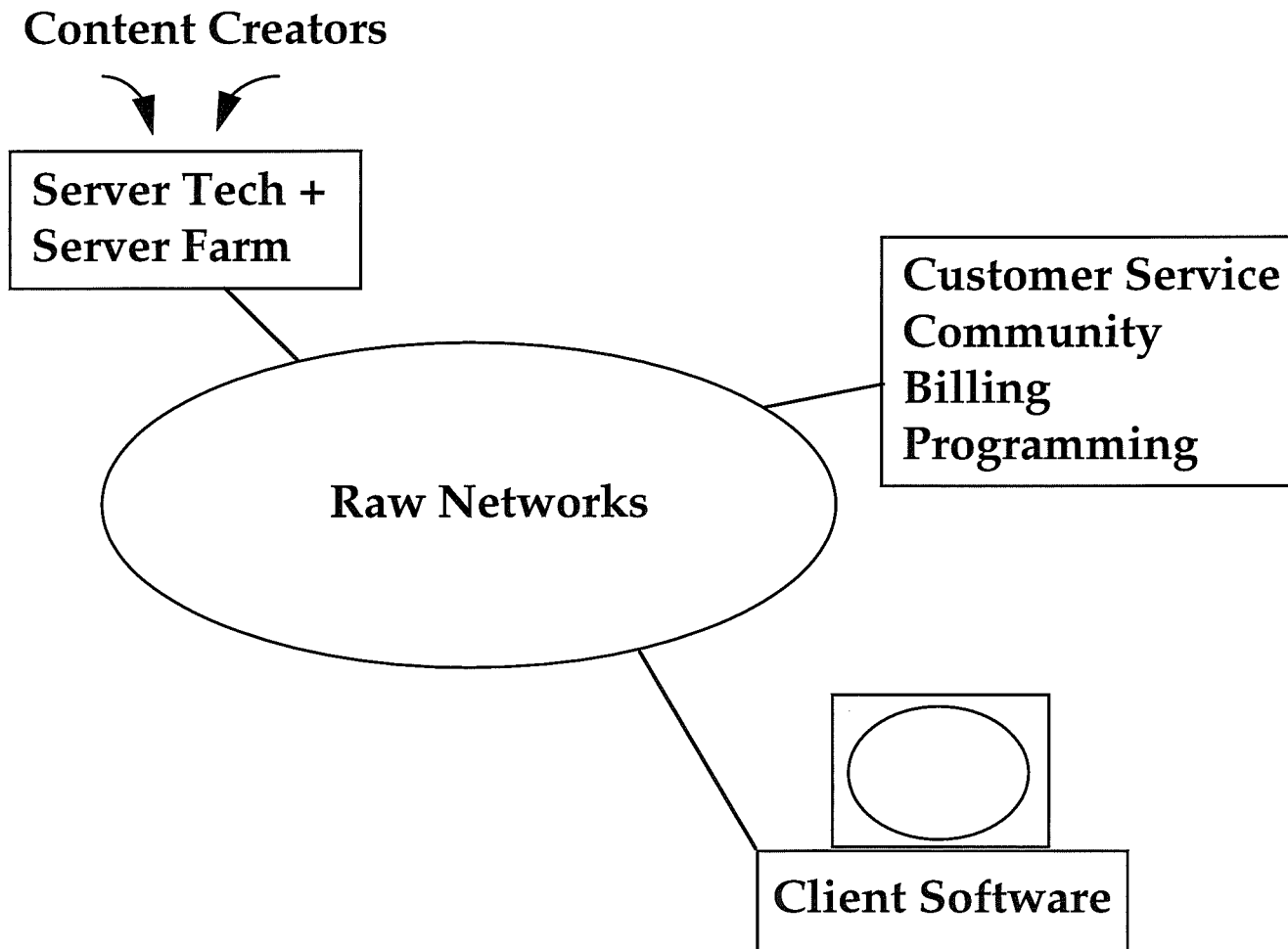Browser
Transport

AOL users   MSN users   ??? users

◊ AOL Programming Adds Value

◊ IPs get maximum distribution

When will Open (horizontal) win over Proprietary (vertical)?
Milestones to watch for:

◊ Microsoft announcing it will unbundle MSN modules

◊ Microsoft actually opens MSN modules

◊ Open systems companies get funded

◊ Open systems companies band together

◊ Analysts/Wall Street focus on these Open Systems companies

Players in the Open World

Content Creators

Server Tech +
Server Farm

Customer Service
Community
Billing
Programming

Raw Networks

Client Software

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AOL Horizontal Strategy

◊ Pick our turf, defend it by being best

◊ Enable our friends with a sustainable business model

◊ Question: What is our sustainable turf?

Our Turf in the Horizontal World

◊ Strategic
   ◊ Consumer Subscription Service
◊ Technical tools and services
   ◊ Content packaging
   ◊ Billing and accounting
   ◊ Community building
◊ Organizational
   ◊ Customer Service
   ◊ Community Stewardship
   ◊ Content packaging and deals

Where the Money Might Go . . .

◊ **Subscription revenue goes through us, so . . .**

   ◊40%   Content (incl chat)

   ◊30%   Marketing/billing/cust

   ◊20%   Server tech + farm

   ◊10%   Client software

◊ **Right catagories? Right %'s?**

Industry Breakdown

◊ Assume $10B Subscription Interactive Media Industry. (w/o Comm costs)

◊$4B   Content/Community royalty

◊$3B   Mktg/Billing/Cust Svc

◊$2B   Server tech + farms

◊$1B   Client technology

◊ Premium pricing and Ad revenue not split

Our New Partners

◊ Netscape/Sun for Client Software

◊ AT&T, MCI, BellAtlantic for Connectivity

◊ News, Print, Video for content

◊ EDS, Donnelley, Netscape, Oracle for
  server software and services

Our Horizontal Competitors: None Yet

◊ MSN

◊ Compuserve, Prodigy

◊ Others if we let them

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Next Steps

◊ Define our turf precisely (business and technical)

◊ Talk about business model with potential partners

◊ Create system to test the model

◊ Build and deploy quickly

GNN 3.0 with Partners

Assumptions: #Subscribers: 1M; Rev/sub $17; hrs/sub 8; Comm cost $1/hr.

$17/user/mo x 12 mo/yr x 1M users = $200M gross/yr
$1/hr x 8hrs/user/mo x 12mo/yr x 1M=$100M comm
Therefore $100M Gross rev w/o comm

	GNN$	Others$
Content	20M	20M
Mktg/custsvc	30M	
Servtech/hosts	10M	10M
Client	5M	5M
------------------	------	------
Revenue	65M	35M (15% gross)
Add Ad Rev	10M	
------------------	------	------
GNN Net Rev	75M	35M

Mr Netscape Situation

◊ Has a technology stream, no revenue stream

◊ Has high investor expectations

◊ Has a long term view

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Pitch to Mr Netscape

◊ We have rev stream, no tech stream

◊ You have tech stream, no rev stream

◊ Lets Partner. . . Our dream is that you are driven to make us successful. And vice versa
<<<<Show 40-30-20-10 plan here >>>>

◊ Client pool of 10% of total rev (w/o comm)

◊ Netscape gets porportion of that

◊ You can get $1-3B/yr for client and server software just from the consumer market

◊ You put us as your startup screen and dial host

Mr Greenhouse situation

◊ AOL turned you down, so you did it yourself on the Web

◊ You have a popular website (50khits/day), growing user base, and no revenue stream

◊ Selling ads is hard and slow

◊ If we can just turn this francise into a business . . .

Pitch to Mr Greenhouse

◊ We want you to be successful in attracting users, particularly our users

◊ We offer you:

  ◊ revenue split,

  ◊ tools,

  ◊ eyeballs: directory entries, etc

◊ You give us:

  ◊ 1" Banner for GNN and advert

  ◊ No surcharge for our members

Greenhouse pitch cont

◊ We have $40M pool/year for content (GNN only, not brand). 1/2 will probably go to chat etc.

◊ Say there are 200 sites and you are in the top 50 most popular. You get $200k/year

◊ We sell ads for your site:

   ◊ 50khits/day= 10Mhits/year

   ◊ Ad rate: $10/k impressions = $100k ad rev